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Accounting reform in Romania

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Abstract

The main objective of this paper is to confirm or rule out the hypothesis that the concepts of normalization, harmonization and convergence of accounting can be understood as a single process steps. Accounting reform in Romania is an evolutionary process that has started to standardize at national level, passing through the euro-harmonization stage and also in the present through a euro-convergence or rather, through a compliance accounting system in Romania, as a Member State, with the decisions taken by the European Commission in the field of accounting.

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1. Introduction

The contemporary accounting phenomenon has got characteristics which will focus on the need of harmonization and uniformity in accountancy. At the same time, representing the general objectives of this discipline, they can be carried out only by bringing its normalization into action. The main phenomena which will govern the global contemporary accounting reform are the following: normalization, harmonization, convergence, compliance, accounting internationalization.

Therefore, I'd like to define the hypothesis on which this study is based, as a hypothesis according to which the concepts of normalization, harmonization and convergence can and/or could be understood as stages of a single process.

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2. Research methodology

Choosing research methods based on the intended purpose of research, identifying the following:

exploratory research that aims to identify the hypothesis that are being investigated in this study;

To support this hypothesis, I proceeded to analyze the terms involved while taking into account the framing of the international accounting harmonization process against the global economic background (accounting normalization, accounting harmonization, accounting convergence, accounting conformity).

explanation research whose goal is to study the causes that explain the evolution in time and space of accounting reform in Romania;

conclusion research or analysis (Cătoi, 2002) which aims at testing the assumptions of the author.

Chapter 1 Accounting Normalization

The Accounting Normalization is defined as the process of harmonization with the presentation of the financial statements, accounting methods and terminology.

The main tasks of the process of the accounting normalization are the following:

1. the working out and bringing up-to-date of the conceptual accounting framework;
2. the doctrinarian information about the legislative proposals and the legal regulations in the accountancy fields;
3. the working out of the accounting rules regarding the assimilation and adaptation of the international accounting standards into a national accounting system.

The way of application of these accounting rules, even if identical in terms of content and presentation of the accounting information, has brought into life the following types of accounting normalization:

1. the legal or regulatory normalization where the products of this process are implemented into practice by the national law of each state;
2. the professional normalization where they are applied into practice by the accounting profession and by this, to other users.

Taking into account the ratio of public or private contributions in the process of making the rules, the accounting normalization can be divided into the following types:

1. the political accounting normalization which is dominated by the state intervention, as especially met in France and Germany;
2. the pragmatic accounting normalization which is dominated by the contribution of the accounting profession, as mainly found in the UK;
3. the joint accounting normalization where the rules are worked out by the accounting profession and are required by the state intervention, the most relevant example being the U.S.A., where the accounting rules are developed by the Financial Accounting Standards Board (FASB), and their implementation is put into practice by the Securities Commission (SEC).

Irrespective of the particular aspects of the national accounting systems, which are different in most cases, the device of the accounting normalization and harmonization is represented by the following components: the accounting conceptual framework, the network of national accounting standards and rules, the accounting normative regulation or the accounting rights, the chart of the accounts and the accounting scheme of the main economic-financial operations, the professional accounting guides, the accounting policies, the accounting normalization institution.

In Romania, the device of the accounting normalization is represented by the following elements (Calu, 2005):

1. The Accounting Law no.82/1991 amended and republished;
2. Regulations governing the implementation of laws and accounting specifications with Regulatory status;
3. Methodological specifications with professional guides status;
4. The general framework for the preparation and presentation of the financial statements worked out by the IASB and taken over by the institution of the national accounting normalization;
5. The Network of the International Accounting Standards worked out by the IASB;
6. The general chart of accounts;
7. The financial audit act.

Chapter 2 Accounting Harmonization

The Accounting Harmonization is defined as the process by which the rules or the accounting norms are improved, put in “harmony”, and respectively brought “into unison” in order to be made comparable. Worldwide, regarding the accounting harmonization, I’d like to mention that there are, generally speaking, only two acting organizations, namely: IASB and IFAC.

The IASB (International Accounting Standards Board), founded in 1973, gathers 143 professional accounting organizations from 104 countries; they have as their main objective the working out on and the publication of IAS / IFRS regarding the presentation of the financial statements as well as the ensuring of their acceptance and application on a global scale. Although these IAS - sites are not mandatory, they exert a strong influence on the national accounting practices and regulations.

The IFAC, founded in 1977, has got concerns especially related to the ISA (International Standards on Auditing), the professional ethics and the training accounting profession.

The FASB (Financial Accounting Standards Board) stands for the accounting standard-American body which is guided by the Financial Accounting Standards (FAS).

The European Union stands for the European Accounting Directives.

The international accounting harmonization is understood as a way of attenuation of the existing differences between the rules and practices which are specific to various national accounting systems; respectively, it is a means of reconciliation among the various accounting cultures, against the background of the intensification of the efforts made by the main bodies involved in the working out and the implementation of an “accounting language universally understood” (Bogdan , 2004:70).

The international accounting harmonization has had a sinuous evolution, becoming, nowadays, a certain reality marked by the globalization, regionalization and internationalization of the financial markets and by the necessity of informing their stakeholders (Tabără, 2010).

The internationalization consists not only in the acquisition of an international characteristic, but also in the obtaining of the necessary means which can help to adapt the various products and services to the specific situations of other nations and / or cultures.

Even if, sometimes the term *internationalization* is used as a synonymous term for *globalization*, as it can describe a process of deepening and tightening the ties of interdependence among the actors of the global economy, we must admit that these terms are not interchangeable. This is because, in our opinion, the internationalization should also require the adding of an alternative language to the national one. Although, this national language can determine positive or negative changes of the requirements and national conditions, it cannot cause permanent replacement of the national framework. However, in the recent decades, the term “internationalization” has been used more seldom than that of “globalization”.

In order to pass on to the definition and analysis of the elements of the globalization, it is necessary that we should mention the relationship between globalization and regionalization. Although both of them have the meaning of *liberalization*, the difference between them is quite obvious. It means that, at the regional level, it is natural that the liberalization should be limited, geographically, as far as the Member States are concerned. In addition, the regionalization does not prove to be an obstacle for the globalization. The trend of the globalization is, first of all, a consequence of the economic transnationalization.

Globalization stands for a growing economic interdependence among the countries of the world due to the high and various volume of the transnational transactions, the international capital flows and the rapid spread of technology. The international 20th century triggered an unprecedented economic and social life, as well as an expansion of the multinational companies, turning the globalization into a relatively recent phenomenon.

Therefore, the accounting harmonization process can be developed within a region (that is “regional harmonization”) or at the global level (that is “global approximation”). The international accounting harmonization can be understood as an internationalization of the accountancy through the promoting of the accounting standards where the global interest has precedence. The term ‘internationalization’ is more suitable, because due to the IASB (International Accounting Standards Committee) a large number of people, companies and countries take part into this process.

Therefore, we can admit that the harmonization of the national referential with the international standards is achieved at two levels:

(1) The European harmonization which includes small and medium enterprises and which is based on the harmonization of the EEC Directives, namely, the following Directives: 4th, 7th and 8th. In Europe, the harmonization process against the accounting background began after 1970 and has resulted in three European Commission Directives: the Directive 4th (1978), the Directive 7th (1983) and the Directive 8th (1984) (Deaconu, 2008). The primary objective of the European accounting directives is to harmonize the efforts made in the accounting systems in order to achieve a common home market.

(2) The worldwide harmonization includes large and very large enterprises where the harmonization is based on the adoption of the accounting international standards. The guide marks of the program of the accounting harmonization, in our country, with the IAS / IFRS, have been characterized more by quantity than by quality meaning that the economic enterprises taken into account by this accounting harmonization had to meet certain criteria regarding the turnover, the volume of assets or the number of the employees. According to the strategy of the Romanian regulatory body, the large economic enterprises had to apply the rules of the accounting harmonization of the IAS / IFRS while the small ones, had to apply the simplified version of these rules. In practice, the attempt to harmonize the two accounting staffs failed because, in many cases, the agreement with certain IAS was only partial.

Thus, while the Europeans have hardly accepted the IAS / IFRS and when they have, they have accepted only the economic enterprises listed on their consolidated accounts, in Romania, these international standards have been taken over, at least, at the regulation level. The practical application has been difficult as it took into discussion the appropriateness of the adopting rules which are the result of another culture and mentality which are deeply rooted in principles.

In conclusion, compared to the struggles of the Romanian accounting regulations in the recent years, the main criticism which can be made to them is that there has been a certain rush in accepting the international norms, taking into account that not all the prerequisites have been created for a truly practical implementation (the legislation of the enterprise, of the tax, of the mentality) (Deaconu, 2008).

Chapter 3 Accounting Convergence

The Accounting Convergence is the process through which the accounting standards are worked out in such a way that they become capable of leading to the same fact or purpose, by highlighting the similarities among the national, the regional and the international elements. The Accounting Convergence aims to remove the disparities between the accounting systems based on the Convergence Project between the U.S. GAAP Project (Accepted United States General Accepted Accounting Principles) and the IFRS (International Financial Reporting Standards).

The international convergence stage has started with a complexity of some new accounting standards (IFRS), as a result of the collaboration between the FASB and IASB with the adoption, by the European Commission, of a modern process of the Fourth and Seventh Directives through the help of the Directive 51/2003/CE.

Taking into account the over 250 large European companies, listed on the U.S. capital markets, which used to apply the international standards of the financial reports (IFRS) and which used to bear higher costs by reconciling the accounting standards (U.S. GAAP) issued by the FASB, the American setter, the FASB, together with the international IASB signed a memorandum on the 18 of September, 2002, at Norwalk. Through this memorandum they wanted to achieve the convergence of their accounting standards, taking into account their comparability and the maintaining of it, as soon as possible.

The IFRS Conformity in the European Union (EURO- convergence)

Typical to the Euro-convergence process is the trying of reaching a stage of harmonization at the EU level through the European Directives and the IFRS. Nowadays, 8.000 European companies have been working out annual financial statements in accordance with the IFRS since 2005.

The elimination of the requirements for the implementation of the IFRS by the foreign companies listed on the U.S. market is closely linked to the success of the application of the IFRS in the EU.

The European Commission has set the deadline at the end of 2008, taking into account the reconciliation of the foreign companies that are listed on the European markets with the IFRS.

The accounting regulation in the EU countries is made through the European Directives which are binding for the member states. These Directives consist of:

1. The Fourth Directive, which ensures consistency among the evaluation rules, the format and the annual financial statements. This directive supports the evaluation at the historical cost and the fair value of the financial instruments;
2. The Seventh Directive, which requires the preparation, by a parent society, of a consolidated financial statements in the case when: a. it holds the majority of the voting rights of a company; b. it is a shareholder of an enterprise and has the right to appoint or remove the majority of the board members; c. it is a shareholder of a company and it exercises a dominant influence.
3. The Eighth Directive on auditing, which stipulates the mandatory auditing of the listed companies. The modernization directive, since 2003, of the 4th, 7th and the 8th directives, removes the contradictions among the European Directives and the IFRS, allowing the enterprises which apply the European directives, to use the IFRS accounting options, regulating the structure of the audit report and the management report.

All this has contributed to the revision of the strategy of action in the accounting reform in Romania and they have aroused the interest of the Romanian legislator (which is the Ministry of Finance) in order to amend the legislative framework which, hitherto brought only a partial harmonization both with the IAS and with the not up-dated European Directives of accountancy (Bunea, 2006). Therefore, they decided to change the approach taking into account the European model because the convergence, at the European level, could be achieved only at two levels; on the one hand, between the European law and IAS / IFRS, and on the other hand, between the laws of the Member States and the EU. Romania has chosen to rule out the concept of *harmonized rules*, which she had made use of till that moment, showing her preference for the term *conformable accounting* (Bebeșelea, 2010). As one may understand, this term does not refer to the international accounting convergence, but it emphasizes the position that Romania has taken in the respective process, namely, her position of being in accordance with the laws and the accounting practices recommended/existing at the European level.

The Accounting Conformity is the process in which one takes into account the agreement between the rules of presentation and their contents and working out of the financial statements. They represent an accounting harmonization of the national regulations with rules set out by the regional and international bodies of accounting standardization.

3. Conclusions

What I meant was to prove that the hypothesis on which this study is founded, is confirmed, namely, the accounting reform in Romania seems to be an evolutionary process which started with the national standardization, passed then through the Euro-harmonization stage and now stands out as a Euro-convergence or better said, as a conformity of the accounting system in Romania, which is a member state which follows the decisions made by the European Commission in the field of accountancy.

The accounting reform in Romania started in 1991 with the enforcing of the Accounting Law no.82/1991. It aimed and still aims at improving the Romanian accounting system which is based on the principles and rules set out by the European Directives and the IAS. The final aim is that the financial statements drawn out by the companies should be able to meet the requirements of the widest categories of users.

A general division into periods of the working out of the reform system is the following: 1. The post communist period (1990 - 1994) which is characterized by: 1. the formation of the national bodies able to start the national accounting reform; 2. a process of determination of the national accounting regulations in cooperation with the French experts. This was the period when the Accounting Law no.82/1991 was worked out. It was enforced beginning with January 1, 1994, together with the new national accounting system; 2. The 1994-1999 period is characterized by the enforcing of the Accounting Law and of its respective Regulation. Besides all these, the accounting system also assimilated a specific legislative material worked out by the Ministry of Finance; 3. The years 1999-2006 represent the period when The National Program of harmonization of the accounting legislation with the European Accounting Directives and the IAS's assimilation were worked out by the Ministry of Finance; 4. The years beginning with 2006 - to present represent another period in the reform of the national accounting. It is this period when new laws have been worked out in a process that has been carried out according to the accounting

system in Romania, as a member state, with the decisions made by the European Commission as far as the field of accountancy is concerned. This means that there is a unitary approach between European Directives and IFRS.

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